

## Message Text

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17

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 /053 W  
----- 086267

R 231223Z APR 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 5494

INFO US DEPT OF TREASURY WASHDC

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: INDIA'S FOREIGN EXCHANGE RESERVES

REF: STATE 95382

1. AS REPORTED EARLIER, THE ESTIMATED INCREASE OF OVER \$800 MILLION IN INDIA'S TOTAL FOREIGN EXCHANGE RESERVES IN IFY 1975-76, REACHING \$2.2 BILLION BY END MARCH 1976, HAS BEEN PRIMARILY DUE TO A DRAMATIC CHANGE IN INVISIBLES. COMPARED TO A DEFICIT OF \$200 MILLION IN IFY 74-75, THE INVISIBLES ACCOUNT HAD AN ESTIMATED SURPLUS OF AROUND \$850 MILLION LAST FISCAL YEAR. THE MAJOR REASON FOR THIS TURNABOUT APPARENTLY HAS BEEN A MARKED RISE IN LEGAL REMITTANCES FROM INDIANS LIVING OVERSEAS, PARTICULARLY DURING THE LAST HALF OF IFY 1975-76. (ACCORDING TO FINANCE MINISTRY OFFICIALS OTHER RELATIVELY LESS IMPORTANT CAUSES OF THE INCREASE IN INVISIBLES HAVE BEEN HIGHER SHIPPING AND TOURIST EARNINGS.)

2. FINANCE MINISTRY JOINT SECRETARY MALHOTRA TOLD EMBOFF THAT HE THOUGHT THERE WERE THREE REASONS WHY REMITTANCES FROM

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INDIANS OVERSEAS HAD GONE UP, ALTHOUGH HE COULD NOT ASSESS

THEIR RELATIVE IMPORTANCE. FIRST, THE GOVERNMENT'S ANTI-SPECULATION DRIVE SINCE THE EMERGENCY HAD ENCOURAGED LEGAL REMITTANCES. ALSO, THE DECLINING VALUE OF STERLING HAD MADE RUPEE HOLDINGS MORE ATTRACTIVE, AND MANY INDIANS OVERSEAS, PARTICULARLY IN U.K., HAD TAKEN ADVANTAGE OF THIS SITUATION. FINALLY, THE DEPRECIATING VALUE OF THE RUPEE VIS-A-VIS THE DOLLAR (NOW OVER RS. 9EQUALS\$1) HAS MEANT THAT THE UNOFFICIAL (BLACK MARKET) RUPEE/DOLLAR RATE IS NOW ONLY marginally HIGHER THAN THE OFFICIAL RATE - NO MORE THAN RS. 9.50 EQUALS \$1 - SO THERE IS LITTLE FINANCIAL INCENTIVE TO RESORT TO THE BLACK MARKET. CONGEN BOMBAY REPORTS THAT FINANCIAL OBSERVERS THERE HAVE ALSO ADVANCED THE SAME GENERAL ARGUMENTS.

3. ON THE OTHER HAND, MALHOTRA DOWNPLAYED THE IMPORTANCE OF THE RESERVE BANK'S MOVE LAST NOVEMBER TO GIVE SPECIAL FACILITIES FOR NON-RESIDENT (EXTERNAL) ACCOUNTS IN FOREIGN CURRENCIES BY INDIANS AND ALIENS OF INDIAN ORIGIN RESIDENT ABROAD. THIS ACTION WAS DESIGNED TO PRESERVE THE VALUE OF FOREIGN CURRENCY ACCOUNTS, BUT MALHOTRA MAINTAINED THAT NOT MANY OVERSEAS INDIANS HAD YET TAKEN ADVANTAGE OF IT.

4. THE OTHER MAJOR REASON FOR THE IMPROVED FOREIGN EXCHANGE RESERVE PICTURE HAS BEEN AN INCREASED FLOW OF EXTERNAL ASSISTANCE DISBURSEMENTS. ACCORDING TO THE WORLD BANK, THESE FLOWS ROSE FROM ALMOST \$1.8 BILLION IN 1974-75 TO \$2.2 BILLION IN 1975-76.

5. WHEN ASKED ABOUT INDIA'S LIKELY FOREIGN EXCHANGE RESERVE POSITION THIS FISCAL YEAR, MALHOTRA SAID THAT IT WAS PROBABLE THAT FXRESERVES HAD REACHED A PEAK AND WOULD LEVEL OFF OR MORE LIKELY DECLINE A BIT IN THE COMING MONTHS. HOWEVER, HE EMPHASIZED THAT THE INVISIBLES CATEGORY - "INSCRUTABLE" AS HE CALLED IT - HAD BEEN VERY VOLATILE DURING THE PAST YEAR, SO THAT IT WAS VERY DIFFICULT TO MAKE A MEANINGFUL PREDICTION ON RESERVES.

6. COMMENT: WE AGREE COMPLETELY THAT DATA ON INVISIBLES, A RESIDUAL IN INDIA'S BALANCE OF PAYMENTS, ARE EXTREMELY PROBLEMATIC AND INCLUDE ERRORS AND OMISSIONS. NEVERTHELESS, WE WILL CONTINUE TO REPORT ANY NEW INFORMATION ON INDIA'S LIMITED OFFICIAL USE

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FOREIGN EXCHANGE RESERVE SITUATION.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN EXCHANGE HOLDINGS, FOREIGN EXCHANGE DATA, INVISIBLES (BALANCE OF PAYMENTS)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 APR 1976  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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